The Financial Management Toolkit

The Missing Financial Management Planning, Process, Theory and Tools Guide - ITIL Compliant

Gerard Blokdijk

The Financial Management Toolkit:

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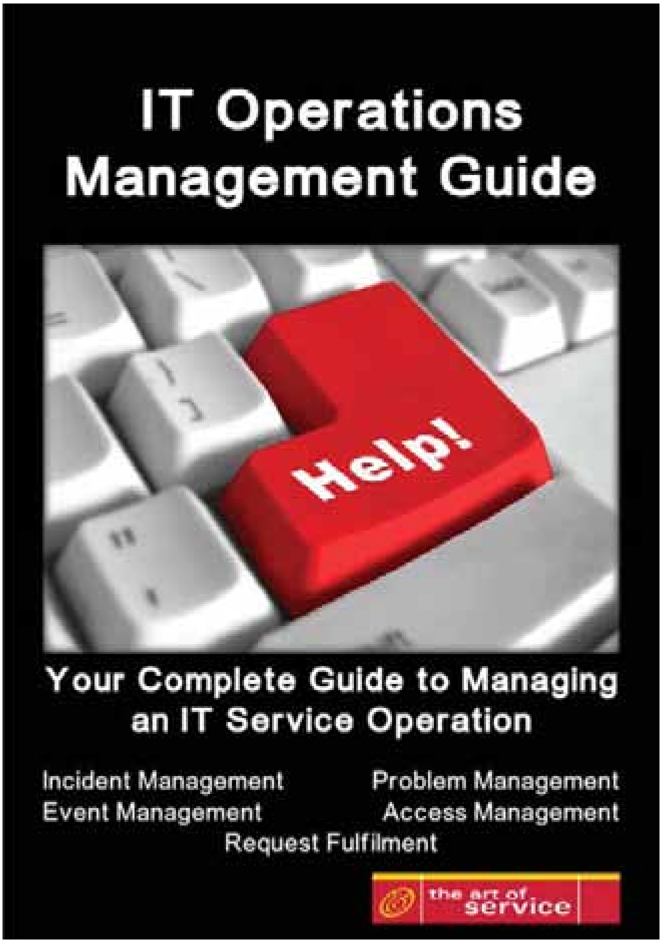
Table of Contents

Also from Emereo Publishing and The Art of Service:



IT Service Operations Management Guide:

Your Complete Guide to Managing an IT Service Operation

A professional technical roadmap to ITIL V3 Framework IT Service Operations Management (Incident, Event, Problem and Access Management, plus Request Fulfilment) with 34 templates and design documents for organizational assessment and implementation.

1 INTRODUCTION ROADMAP

Many organizations are looking to implement Financial Management as a way to improve the structure and quality of the business.

This document describes the contents of the Financial Management Workbook. The information found within the book is based on the ITIL Version 3 framework, specifically the Service Strategy phase which incorporates the updated ITIL Version 3 Financial Management process.

The Workbook is designed to answer a lot of the questions that Financial Management process raises and provides you with useful guides, templates and essential, but simple assessments.

The supporting documents and assessments will help you identify the areas within your organization that require the most activity in terms of change and improvement.

Presentations can be used to educate or be used as the basis for management presentations or when making business cases for Financial Management implementation.

The additional information and bonus resources will enable you to improve your organizations methodology knowledge base.

The Workbook serves to act as a starting point. It will give you a clear path to travel. It is designed to be a valuable source of information and activities.

The Financial Management Workbook:

- Flows logically,
- Is scalable,
- Provides presentations, templates and documents,
- Saves you time.

Step 1

Start by reviewing the PowerPoint presentation:

1 Financial Management

The presentation provides a detailed and comprehensive overview of Financial Management in the specialist areas of ITIL Version3

These presentations will give you a good knowledge and understanding of all the terms, activities and concepts required within the Financial Management process. They can also be used as the basis for management presentations or when making a formal business case for Financial Management implementation. Make sure you pay close attention to the notes pages, as well as the slides, as references to further documents and resources are highlighted here.

Step 2

If you did not look at the supporting documents and resources when prompted during the PowerPoint presentations, do this now.

Below is an itemized list of the supporting documents and resources for easy reference. You can use these documents and resources within your own organization or as a template to help you in prepare your own bespoke documentation.

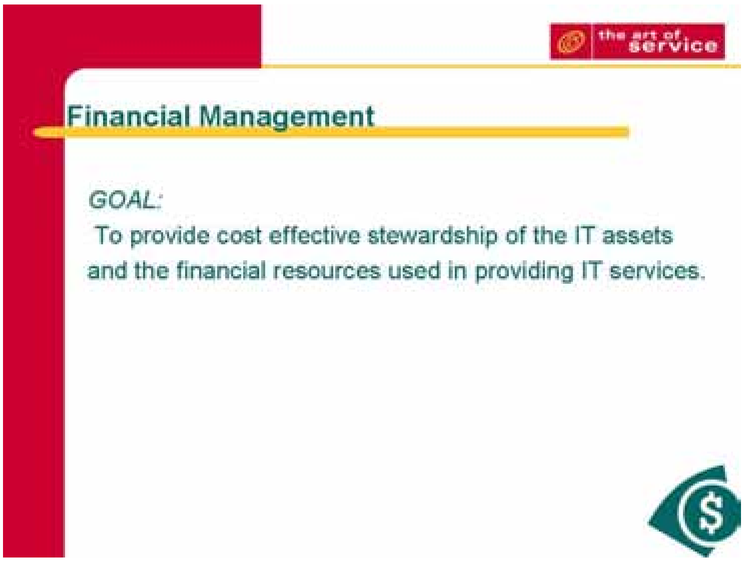
Objectives and Goals
Policies, Objectives and Scope
Communication Plan
Financial Management Process Manager
Business Justification Document
Accounting Policies
Budgeting Guidelines
Charging Policies
Reports, KPIs and other Metrics
Sample Business Case Structure
Common business objectives
Example - Single business impact can affect multiple business objectives
Example - Multiple business impacts can affect single business objectives
Example NPV Decisions
Example Model: Calculation of a service management ROI
Example Trend Line Analysis

Step 2 continued...

Alternatively, continue by working through the **Financial Management Implementation & Project Plan** with the focus on your organization. This will help you ascertain the Financial Management maturity for your organization. You will able to identify gaps and areas of attention and/or improvement.

The supporting documents and bonus resources found within the book will help you fill these gaps by giving you a focused, practical and user-friendly approach to Financial Management.

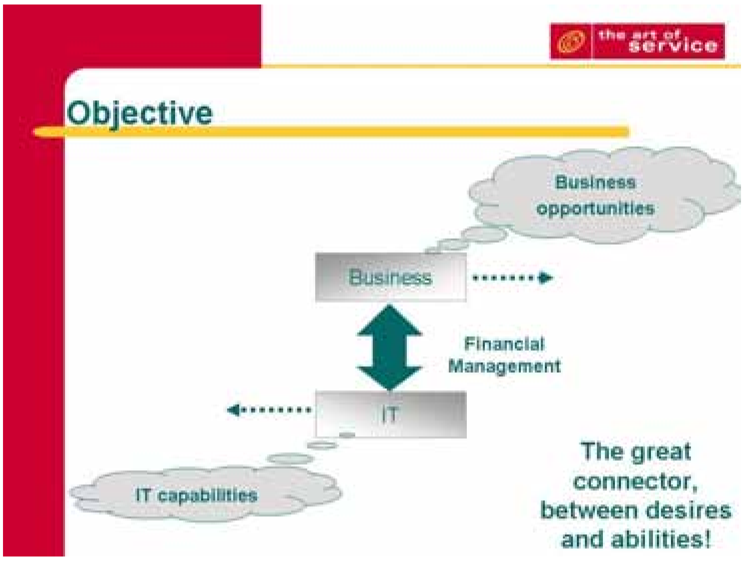
2 FINANCIAL MANAGEMENT



Operational visibility, insight and superior decision making are the core capabilities brought to the enterprise though the rigorous application of Financial Management. Just as business units accrue benefits through the analysis of product mix and margin data, or customer profiles and product behavior, a similar utility of financial data continues to increase the importance of Financial Management for IT and the business as well.

Financial Management for IT Services enables an organization to account fully for the spend on IT Services and to attribute these costs to the services delivered to the organization's customers.

Further information on *Objectives and Goals* can be found on page 49.



Financial Management is the process, which acts as a bridge between the Business Desires/Opportunities and the Capabilities of the IT organization. It enables the business to be more IT conscious and IT to become more business aligned.
Financial management provides the business and IT with the quantification, in financial terms, of the value of IT services, the value of the assets underlying the provisioning of those services, and the qualification of operational forecasting.

Talking about IT in terms of services is the crux of changing the perception of IT and its value to the business. Therefore, a significant portion of Financial Management is working in tandem with IT and the business to help identify, document and agree on the value of the services being received, and the enablement of service demand modeling and management.

Further information can be found in the following documents:

- ***Policies, Objectives and Goals*** **on page 53**
- ***Communication Plan*** **on page 57**
- ***Financial Management Process Manager*** **on page 57**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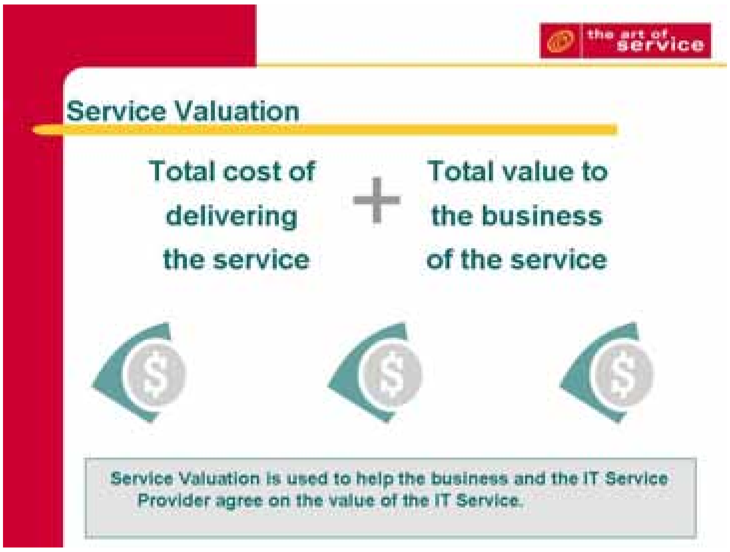
Enterprise value and benefits of Financial Management
The landscape of IT is changing as a strategic business and delivery models evolve rapidly, product development cycles shrink, and disposable designer products become ubiquitous.
Much like their business counterparts, IT organizations are increasingly incorporating Financial Management in the pursuit of:
• Enhanced decision making
• Speed of change
• Service Portfolio Management
• Financial compliance and control
• Operational control
• Value capture and creation.
$

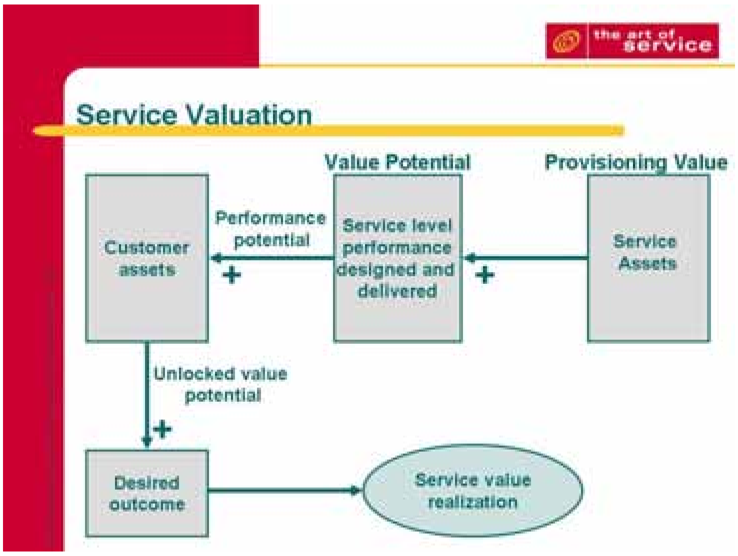
This framework illustrates the commonality of interests and benefits between the business and IT. Service and strategy design both benefit greatly from the operational decision-making data that Financial Management aggregates, refines and distributes as part of the Financial Management process. Financial Management generates meaningful critical performance data used to answer important questions for an organization, such as:

- Is our differentiation strategy resulting in higher profits or revenues, lower costs, or greater service adoption?
- Which services cost us the most, and why?
- What are our volumes and types of consumed services, and what is the correlating budget requirement?
- How efficient are our service provisioning models in relation to alternatives?
- Does our strategic approach to service design result in services that can be offered to a competitive market price, reduce risk or offer superior value?
- Where are our greatest service inefficiencies?
- Which functional areas represent the highest priority opportunities for us to focus on as we generate a CSI strategy?



Reminder: Value for services is created by the combination of utility and warranty.
The primary goal of Service Valuation is to produce a value for services that the business perceives as fair, and fulfils the needs of the provider in terms of supporting it as an ongoing concern. A secondary objective is the improved management of demand and consumption behavior.

There is a *Business Justification Document* on page 67.

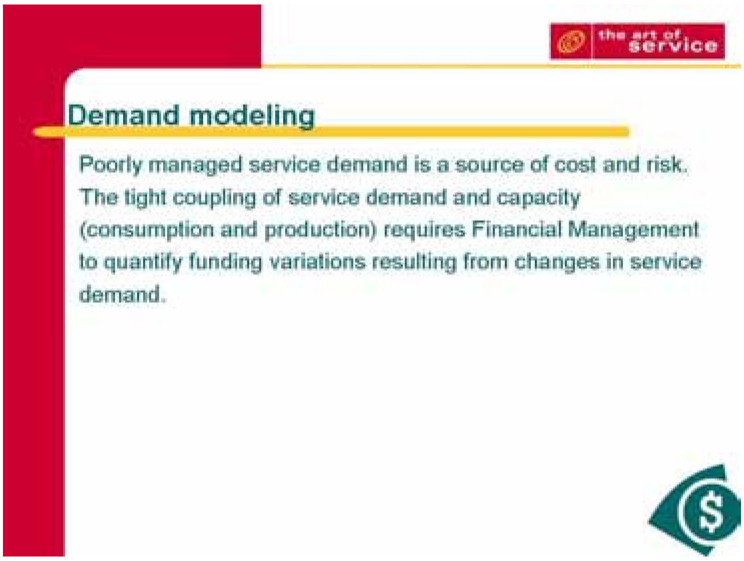


Service Valuation concentrates on two key valuation concepts:
Provisioning value: the actual underlying cost to IT related to provisioning a service. Input comes from financial systems, and consists of payment for actual resources consumed by IT in the provisioning of a service. These cost elements include items such as:

- Hardware and software license costs
- Annual maintenance fees for hardware and software
- Personnel resources used in the support or maintenance of a service
- Utilities, data centre or other facilities charges
- Taxes, capital or interest charges
- Compliance costs

The sum of these actual service costs typically represents the baseline from which the minimum value of a service is calculated as providers are seldom willing to offer a service where they are unable to recover the provisioning cost.

Service Value Potential: is the value added component based on the customer's perception of value from the service or expected marginal utility and warranty from using the service, in comparison with what is possible using the customers own assets. Provisioning value elements add up first to establish a baseline. The value-added components of the service are then monetized individually according to their perceived value to estimate the true value of the service.



Financial demand modeling focuses on identifying the total cost of utilization (TCU) to the customer, and predicting the financial implications of future service demand.

Demand modeling uses service-oriented financial information with factors of demand and supply in order to model anticipated usage by the business, and provisioning requirements by IT. This is for identifying funding requirements, variations and drivers of those variations, and to assist in the management of service demand.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Service Portfolio Management
Financial Management is a key input to Service Portfolio Management. By understanding cost structures applied in provisioning of a service, a company can benchmark that service cost against other providers.
In this way, companies can use IT Financial information, together with service demand and internal service capability information, to make beneficial decisions regarding whether a certain service should be provisioned internally.


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Service Provisioning Optimization (SPO)
Financial Management provides key inputs for Service Provisioning Optimization. SPO examines the financial inputs and constraints or delivery models to determine if alternatives should be explored relating to how a service can be provisioned differently to make it more competitive in terms of cost or quality.


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Planning Confidence
Planning provides financial translation and qualification of expected future demand for IT services.
Financial Management Planning departs from historical IT planning by focusing on demand and supply variances resulting from business strategy, capacity inputs and forecasting, rather than traditional individual line item expenditures or business cost accounts.

Operating and Capital processes are common and fairly standardized, and involve the translation of IT expenditures into corporate financial systems as part of the corporate planning cycle. Beyond this, the importance of this process is in communicating expected changes in the funding of IT services for consideration by other business domains. The impact of IT services on capital planning is largely underestimated, but is of interest to tax and fixed asset departments if the status of an IT asset changes.

Regulatory and Environmental – related planning should get triggers from within the business. However FMIT should apply the proper financial inputs to the related services value, whether cost based or value based.

Planning confidence is ultimately a combination of service-orientated demand a modeling translated into measurable financial requirements with a high degree of statistical accuracy. The financial requirements act as inputs in to critical business decision making.

The detail of the assumptions used in investment analysis can have a significant impact on the outcome of the analysis.
In Service Investment Analysis, it is best to lean toward the use of an exhaustive inventory of assumptions rather than a limited set of high-level inputs, in order to generate a more realistic and accurate view of the investment being made.

E.g. a service obtained via an instantly self deployable packaged software solution residing on a single desktop and requiring little user support will have a different investment profile than a service obtained through custom development, global customer interaction and other resources that go into creating, deploying and supporting an enterprise solution with multiple language users.

Financial Management plays an important role between corporate financial systems and service management. The result of a service-oriented accounting function is that far greater detail and understanding is achieved regarding service provisioning and consumption, and the generation of data that feeds directly into the planning process.

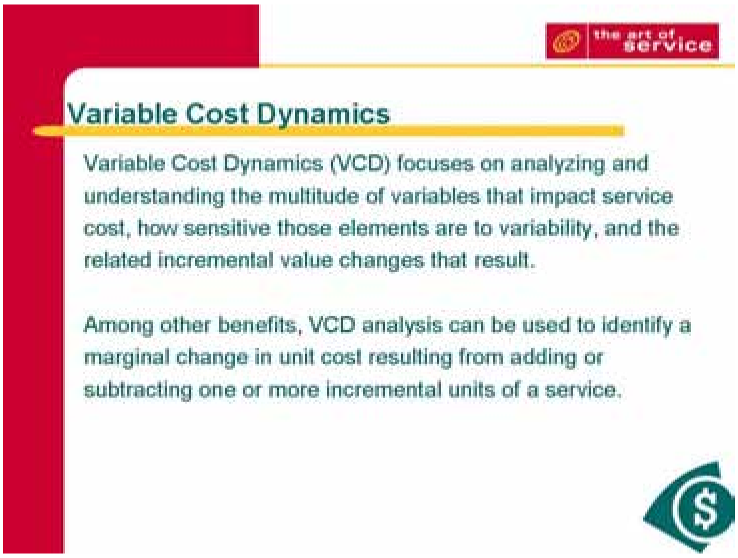
The functions and accounting characteristics that come into play are discussed below:

- Service Recording
- Cost Types
- Cost Classifications – capital/operational, Direct/indirect, Fixed/variable, Cost Units.

Further information can be found in following documents:

- ***Accounting Policies* on page 73**
- ***Budgeting Guidelines* on page 77**
- ***Charging Policies* on page 83**

<u>Information on *Reports, KPIs and other Metrics* can be found in a separate document on page 89.</u>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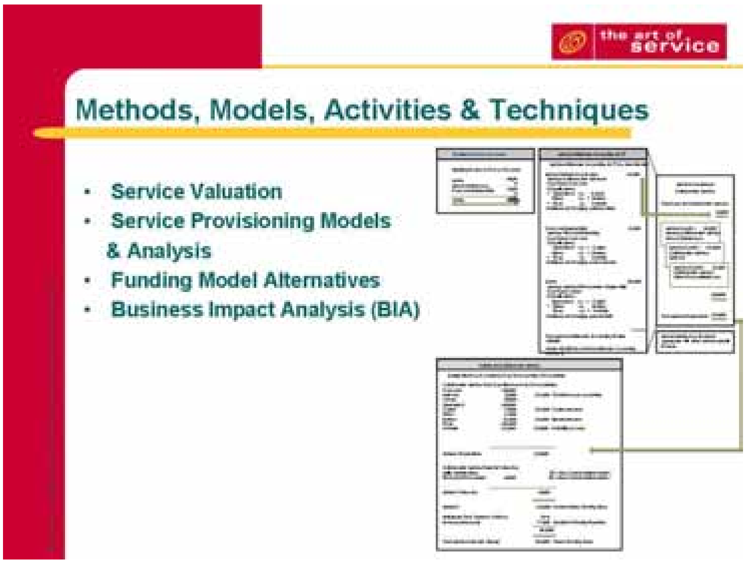
Variable Cost Dynamics
Variable Cost Dynamics (VCD) focuses on analyzing and understanding the multitude of variables that impact service cost, how sensitive those elements are to variability, and the related incremental value changes that result.
Among other benefits, VCD analysis can be used to identify a marginal change in unit cost resulting from adding or subtracting one or more incremental units of a service.



This covers detailed guidance in the form of sample models, methods, activities and techniques for key areas.

Examples:

Service Valuation

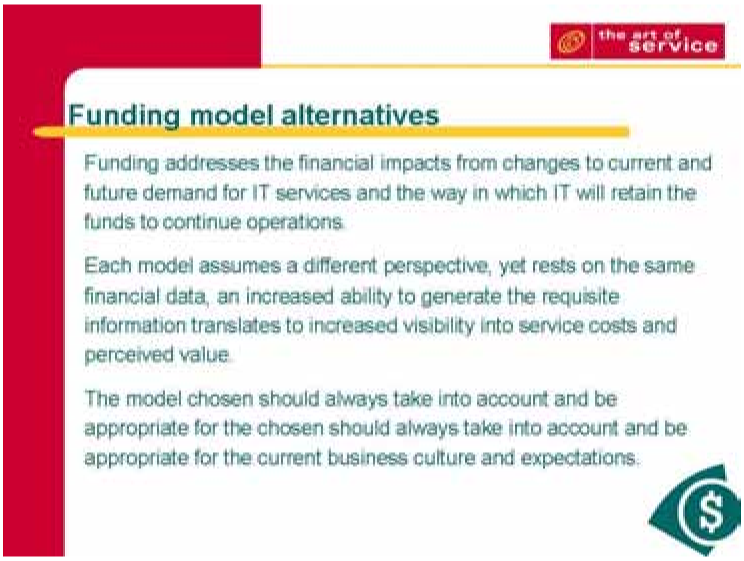
- direct versus indirect costs
- labor costs
- variable cost element
- translation from cost account data to service value

Service provisioning models and analysis

- managed services
- shared services
- utility-based provisioning
- on-shore, off-shore or near-shore?
- service provisioning cost analysis

Funding model alternatives

- Rolling plan funding
- Trigger-based plans
- Zero-based funding

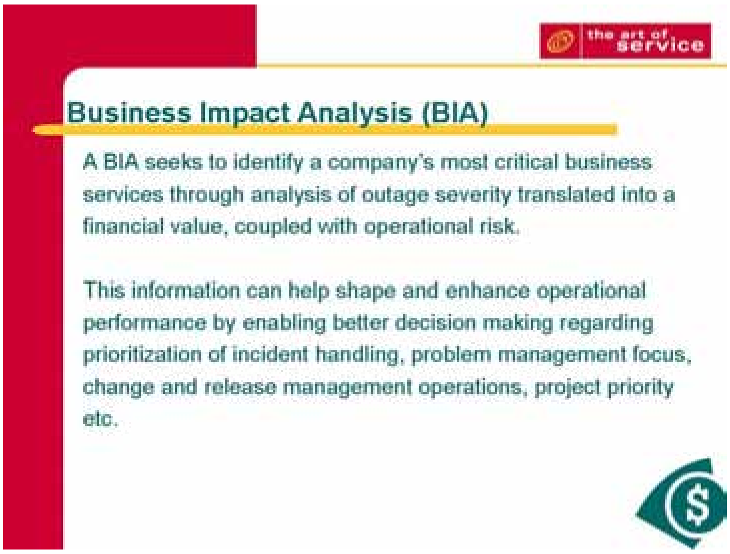


The model chosen should always take into account and be appropriate for the chosen should always take into account and be appropriate for the current business culture and expectations.

Roll Plan Funding – Ina rolling plan, as one cycle completes another cycle of funding is added. This plan encourages a constant cycle of funding. However, it only addresses timing and does not necessarily increase accuracy.

Trigger-Based Plans – Occurs when identified critical triggers occur and set off planning for a particular event. This type of planning alleviates timing issues with accounting for past events, since the process requires future planning at the time of the change.

Zero-Based Funding – Refers to how funding of IT occurs. Funding is only enough to bring the balance of the IT financial centre back to zero or to bring the balance of funding of a service back to zero until another funding cycle.



A number of steps can be completed while generating a BIA. Some of the high level activities are as follows:

1. Arrange resources from the business and IT that will work together on the analysis

2. Identify all of the top candidate services for designation as critical, secondary and tertiary

3. Identify core analysis points for use in assessing risk and impact, e.g.

- Lost sales revenue
- Fines
- Failure risk
- Lost Productivity
- Lost opportunity
- Number of users impacted
- Visibility to shareholders, management etc
- Risk of service obsolescence
- Harm to reputation among customers, shareholders and regulatory authorities.

4. With the business, weight the identified elements of risk and impact.

5. Score candidate services against the weighted elements of risk and impact and total their individual risk scores.

6. Generate a list of services in order of risk profile.

7. Decide on a universal time period with which to standardize the translation of service outage to financial cost.

8. Calculate the financial impact of each service being analyzed within the BIA using agreed methods, formulas and assumptions.

9. Generate a list of services in order of financial impact

10. Utilize the risk and financial data generated to create charts that illustrate the company's highest risk applications that also carry the greatest financial impact.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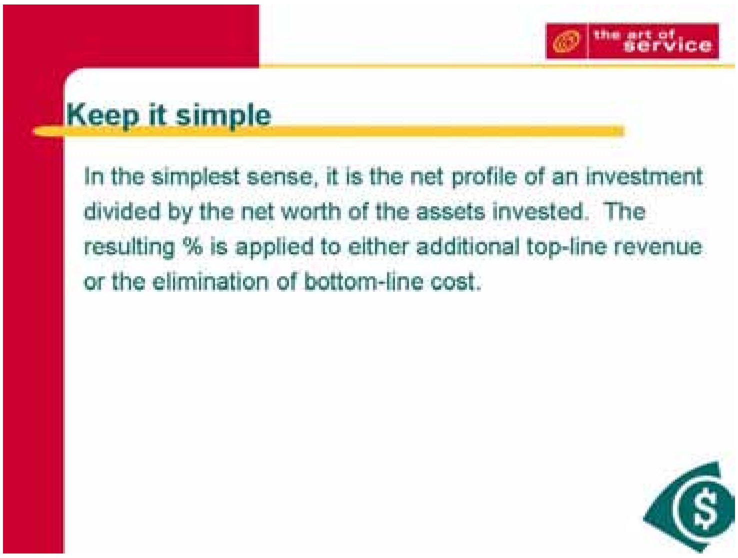
Return On Investment (ROI)
ROI is a concept for quantifying the value of an investment. Its use and meaning are not always precise. When dealing with financial offers, ROI most likely means Return on Invested Capital (ROIC), a measure of business performance.
This is not the case with service management, ROI is used as a measure of the ability to use assets to generate additional value.



It is not unexpected that companies seek to apply the ROI in deciding to adopt service management. ROI is appealing because it is self-evident. The measure either meets or does not meet a numerical criterion. The challenge is when ROI calculations focus on the short-term. The application of service management has different degrees of ROI, depending on business impact. Furthermore, there are often difficulties in quantifying the complexities involved in implementations.

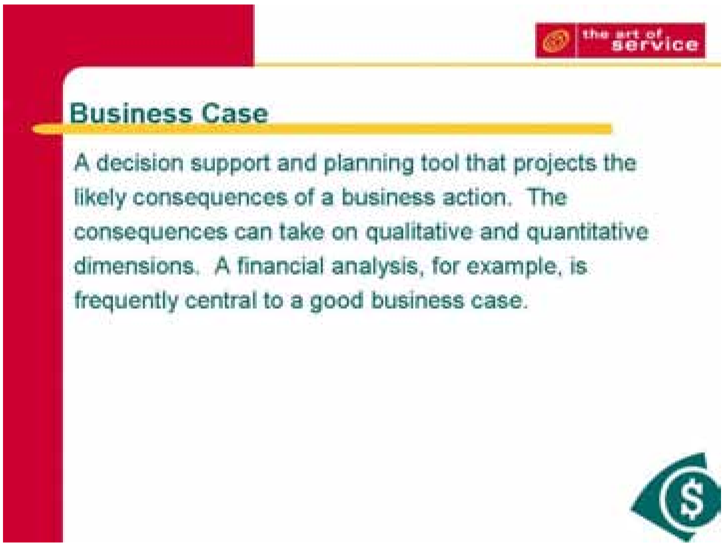
Service management by itself does not provide any of the tactical benefits that business managers typically budget for. One of the greatest challenges for those seeking funding for ITIL projects is identifying a specific business imperative that depends on service management.

Business case – means to identify business imperatives that depend on service management.

Pre-program ROI – Techniques for quantitatively analyzing an investment in service management.

Post-program ROI – techniques for retroactively analyzing an investment in service management.

We will look at each concept in more detail throughout the presentation.



There is an ITIL Version 3 *Sample Business Case Structure* available on page 97.

Objectives should start broadly. For example,

The business objectives for commercial provider organizations are usually the objectives of the business itself, including financial and organizational performance.
The business objectives for not-for-profit organizations are usually the objectives for the constituents, population or membership served as well as financial and organizational performance.

An example of ITIL Version 3 *Common Business Objectives* is available on page 99.

It is easy for a business case to focus on financial analysis and neglect non-financial impacts. The end result is a business case that is not as convincing as it should be. By incorporating business impacts linked to business objectives, a business case is more compelling.

<u>Examples of how '*Single business impact can affect multiple business objectives*' and '*Multiple business impacts can affect a single business objective'* are available on pages 101 and 103.</u>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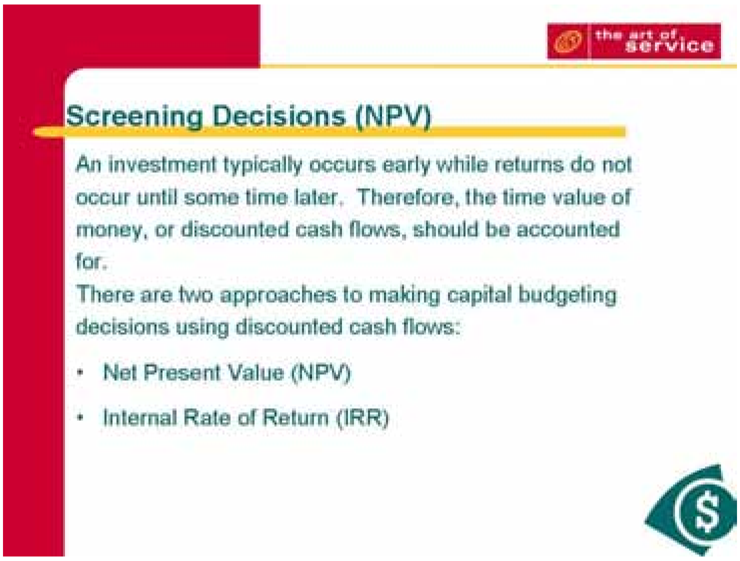
Pre-program ROI
The term capital budgeting is used to describe how managers plan significant outlays on projects that have long-term implications.
A service management initiative may sometimes require capital budgeting.

Screening decisions relate to whether a proposed service management initiative passes a predetermined hurdle, minimum return for example. Preference decisions, on the other hand, relate to choosing from among several competing alternatives. Selecting between an internal Service Improvement Plan (SIP) and a service sourcing program is an example.

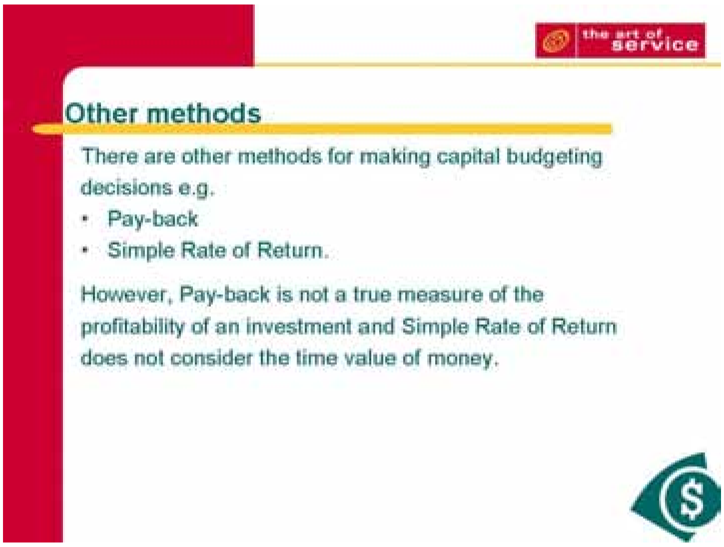


NPV is preferred for screening decisions. IRR is preferred for preference decisions.
Under the NPV method, the programs cash inflows are compared to the cash outflows. The difference, called net present value, determines whether or not the investment is suitable. Whenever the net present value is negative, the investment is unlikely to be suitable.

An *Example of NPV Decisions* is available on page 105.

For service management programs, the NPV method has several advantages over the IRR method:

- NPV is generally easier to use
- IRR may require searching for a discount rate resulting in an NPV or zero.
- IRR assumes the rate of return is the rate of return on the program, a questionable assumption for environments with minimal service management program experience.
- When NPV and IRR disagree on the attractiveness of the project, it is best to go with NPV. It makes the more realistic assumption about the rate of return.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Other methods
There are other methods for making capital budgeting decisions e.g.
• Pay-back
• Simple Rate of Return.
However, Pay-back is not a true measure of the profitability of an investment and Simple Rate of Return does not consider the time value of money.
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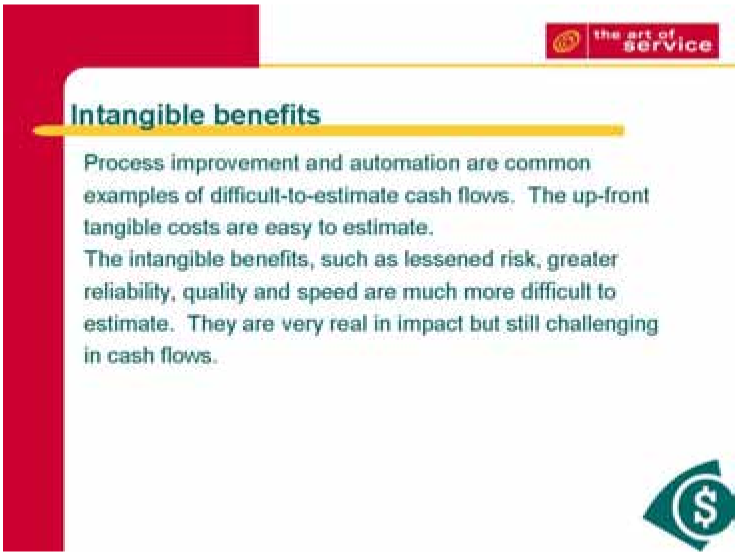


Fortunately there is a simple procedure available.

For example, an organization seeks to purchase service management process automation software. The organization has an 8% discount rate. The useful life of the software is set to 5 years. A prior NPV analysis of the tangible costs and benefits shows an NPV of -$139,755. If the intangible benefits are large enough, the NPV could go from negative to positive. To compute the benefit required (inflow), first we need to know the Present Value Factor (e.g. 3.993):

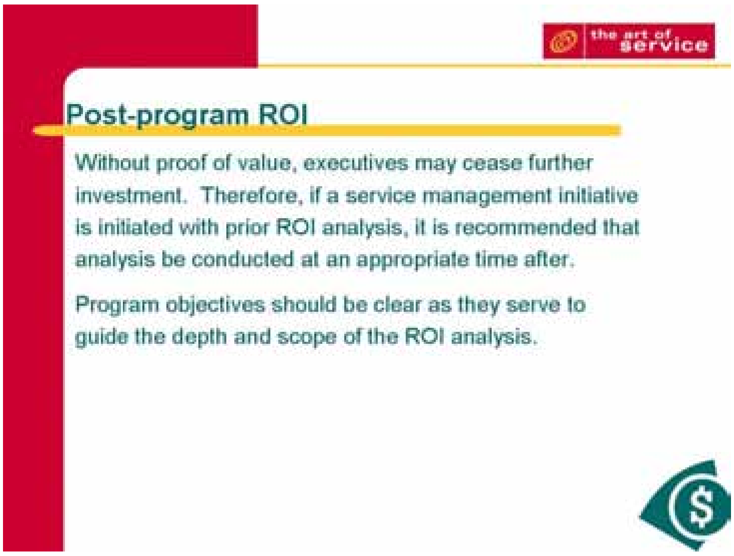
$$\frac{\textbf{NPV excluding intangible benefits, \$139,755}}{\textbf{Present value factor (8\%, 5 years), 3.993}} = \textbf{\$35,000}$$

The result serves as a subjective guideline for estimation. If the intangible benefits are at least $35,000, then the NPV is acceptable. The process automation should be performed. If in the judgment of senior managers, the intangible benefits are not worth $35,000, then the process automation should not be performed.

The NPV of one project cannot be directly compared to another unless the investments are equal. As a result, the IRR is widely used for preference decisions. The higher the rate of Internal Rate of Return, the more desirable the initiative.

The IRR is the rate of return over the life of the initiative. IRR is calculated by finding the discount rate that equates the present value of a project's cash outflow with the present value of its inflows.

The IRR is the discount rate resulting in an NPV of zero.

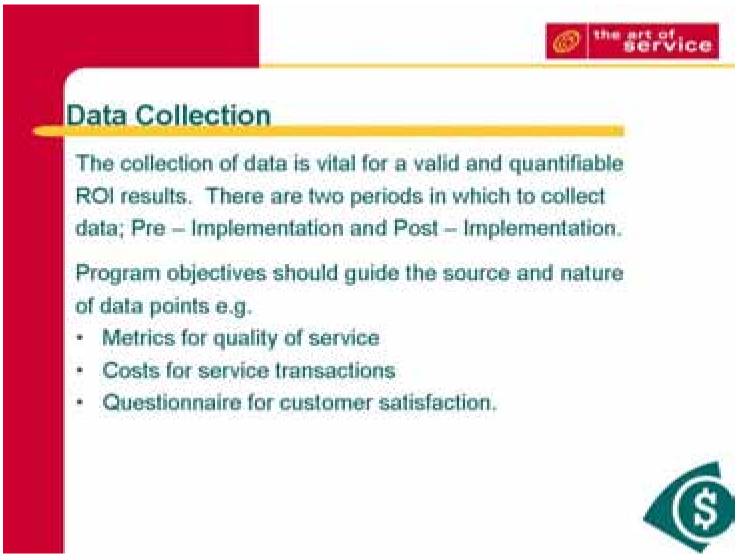


Many companies successfully justify service management implementations through qualitative arguments, without a business case or plan, often ranking cost savings as a low business driver. But without clearly defined financial objectives, companies cannot measure the added value brought by service management, this introduces future risk in the form of strong opposition from business leaders. Having experienced a history of shortfalls in past frameworks, stakeholders may question the resultant value of a service management program.

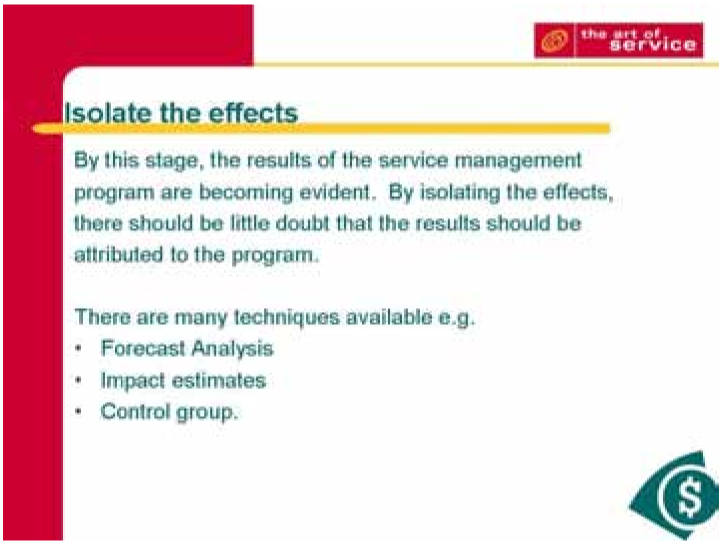
Program objectives can range from simple terminology to the adoption of industry practices:

- Deliver consistent and repeatable service
- Lower the overall total cost of ownership
- Improve quality of service
- Implement industry-wide best practices
- Provide an overall structure and process
- Facilitate the use of common concepts and terminology.

An *Example Model: Calculation of a service management ROI* is available on page 107.



Note: data collection for process transactions will differ from data collection for a function.

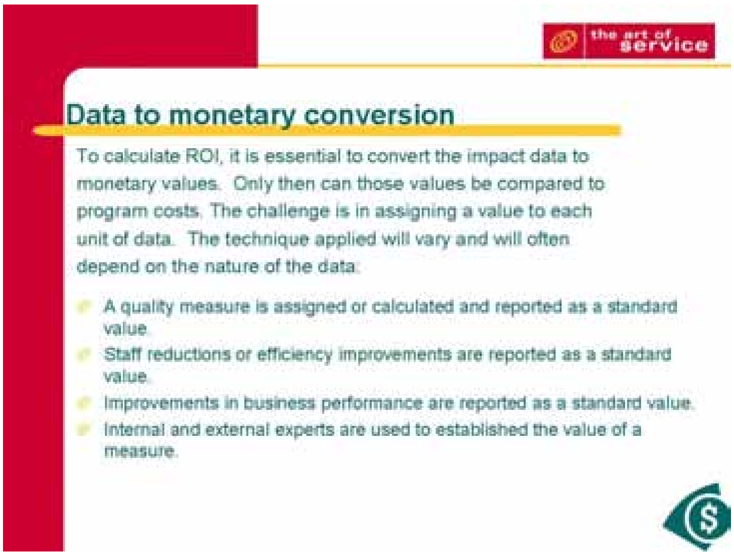


Forecast analysis: a trend line analysis or another forecasting model is used to project data points had the program not taken place.

An *Example Trend Line Analysis* is available in a separate document on page 109.

Impact analysis: when a forecasting approach is not feasible, either due to lack of data or inconsistencies in measurements, an alternative approach in the form of estimations is performed. Simply put, customer and stakeholders estimate the level of improvements. Input is sought from organizational managers, independent experts and external assessments.

Control group: in this technique, a pilot implementation takes place in a subset of the enterprise. That subset may be based on geography, delivery centre or organizational branch. The resultant performance is compared with a similar but unaffected sunset.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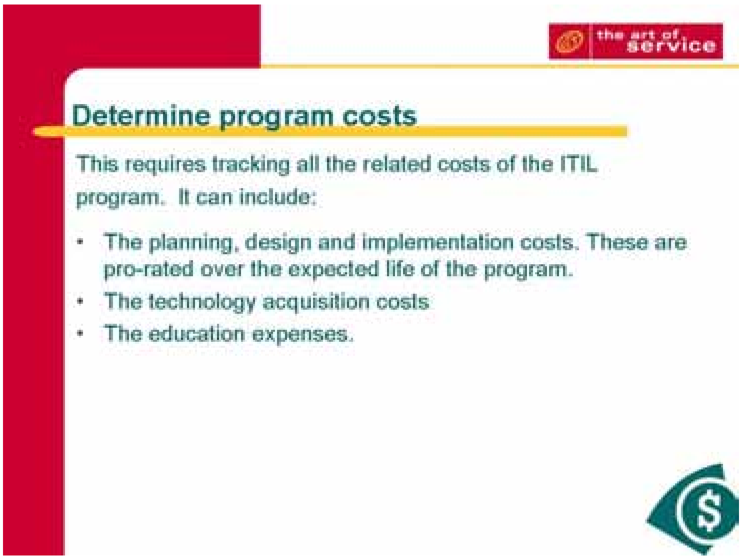
Data to monetary conversion
To calculate ROI, it is essential to convert the impact data to monetary values. Only then can those values be compared to program costs. The challenge is in assigning a value to each unit of data. The technique applied will vary and will often depend on the nature of the data:
A quality measure is assigned or calculated and reported as a standard value.
Staff reductions or efficiency improvements are reported as a standard value.
Improvements in business performance are reported as a standard value.
Internal and external experts are used to established the value of a measure.



Once costs are calculated, ROI can be calculated using the NPV and IRR techniques mentioned in the earlier slides.

The final stage is identifying qualitative benefits. Qualitative benefits begin with these detailed in the business case.

3 SUPPORTING DOCUMENTS

Through the documents, look for text surrounded by << and >> these are indicators for you to create some specific text.

Watch also for highlighted text which provides further guidance and instructions.

3.1 Objectives and Goals

IT Services

Detailed Objectives/Goals
Process: Financial Management

Status:	
Version:	0.1
Release Date:	

Detailed Objectives/Goals for Financial Management

The document is not to be considered an extensive statement as its topics have to be generic enough to suit any reader for any organization.

However, the reader will certainly be reminded of the key topics that have to be considered.

The detailed objectives for Financial Management should include the following salient points:

Objective	Notes
To determine the cost of IT Services. Typically, organizations do not fully understand the costs associated with individual services. This hinders an effective decision making process based on reliable information.	Met/Exceeded/Shortfall 😐 ☺ ☹ Dates/names/role titles
To identify and classify the cost structure. There needs to be a well thought out cost structure incorporating a cost model to be able to truly understand the TCO of the service.	
To fairly allocate costs of IT services to both Internal and External customers. Typically, organizations that have charging in place will opt for the easiest way to allocate charges such as "If we have four customers we allocate a quarter to each!" This inevitably causes customers who do not use the full quarter of the service but are charged for it to look elsewhere for a service provider.	
To introduce charging methods for the use of IT services, where appropriate. Moving from a typical cost centre to perhaps a profit centre may not be for every organization; however the charging process can show the customer the value that is being provided.	
To operate the IT department as a business unit where required. In essence, all internal organizations should be responsible for their individual longevity; this shift in	

thinking makes the IT department fully responsible for its own future.	
To recover all costs including capital costs from the customer. The burden of cost should not be borne by the IT provider. If there is a legitimate business need for a service, then that cost must be passed to the customer.	
To check charges at regular intervals to determine if they are realistic and acceptable. The customer should not be disadvantaged, ongoing monitoring is necessary to identify market changes to be in a position to pass savings to the customer as well as charges.	
To shape the behavior of customers and users by building cost awareness and tying cost directly to services. Ultimately the customer is in control. If the customer is aware of the impact of the cost of extensive usage of a service, the customer is better positioned to apply constraints based on business rules to only use the resources necessary to sustain the business.	

Use these objectives to generate discussion about others that may be more appropriate to list than those provided.

Refer also to the *Communication Plan* for ideas on how to communicate the benefits of Financial Management.

3.2 Policies, Objectives & Scope

IT Services

Policies, Objectives & Scope
Process: Financial Management

Status:	In draft Under Review Sent for Approval Approved Rejected	
Version:	<<your version>>	
IT Service Continuity Date:		

Policies, Objectives and Scope for Financial Management

The document is not to be considered an extensive statement as its topics have to be generic enough to suit any reader for any organization.

However, the reader will certainly be reminded of the key topics that have to be considered.

Refer to *Implementation Plan – Project Plan* for planning and implementation guidelines (that includes the Policy, Objectives and Scope statements).

Policy Statement

A course of action, guiding principle, or procedure considered expedient, prudent, or advantageous

Use this text box to answer the "SENSE OF URGENCY" question regarding this process.

Why is effort being put into this process?
Not simply because someone thinks it's a good idea. That won't do. The reason has to be based in business benefits.

You must be able to concisely document the reason behind starting or improving this process.

Is it because of legal requirements or competitive advantage? Perhaps the business has suffered major problems or user satisfaction ratings are at the point where outsourcing is being considered.

A policy statement any bigger than this text box, may be too lengthy to read, lose the intended audience with detail, not be clearly focused on answering the WHY question for this process.

The above Policy Statement was;

Prepared by:	______________________
On:	<<date>>
And accepted by:	______________________
On:	<<date>>

Objectives Statement

Something worked toward or striven for; a goal

Use this text box to answer the "WHERE ARE WE GOING" question regarding this process.

What will be the end result of this process and how will we know when we have reached the end result?
Will we know because we will establish a few key metrics or measurements or will it be a more subjective decision, based on instinct?

A generic sample statement on the "objective" for Financial Management is:

The object of Financial Management is to provide stewardship for the cost effectiveness of the IT Services and the supporting Infrastructure in such a manner that IT Services can be budgeted for, accounted for, and charged at a fair and reasonable price. In addition to this, Financial Management will perform iterative optimization activities to ensure constant improvements and alignment.

Note the keywords in the statement. **For the statement on Financial Management they are "cost effective" and "budgeting, accounting and charging". These are definite areas that we can set metrics for and therefore measure progress.**

An objective statement any bigger than this text box, may be too lengthy to read, lose the intended audience with detail, not be clearly focused on answering the WHERE question for this process.

The above Objective Statement was;

Prepared by: ______________________________
On: <<date>>

And accepted by: ______________________________
On: <<date>>

Refer to *Reports, KPIs and other Metrics* for metrics, KPI's for Financial Management.

Refer to *Objectives and Goals* for detailed statement of process objectives/goals.

Scope Statement

The area covered by a given activity or subject

Use this text box to answer the "WHAT" question regarding this process.

What are the boundaries for this process?
What does the information flow look like into this process and from this process to other processes and functional areas?

A generic sample statement on the "scope" for Financial Management is:

The Financial Management process will be responsible for budgeting, accounting and charging involving the following aspects of the IT Infrastructure:

- **Hardware**
- **Software**
- **System Software**
- **Etc**

Financial Management will not be responsible for those components that exist under the banner of Applications Development.

An scope statement any bigger than this text box, may be too lengthy to read, lose the intended audience with detail, not be clearly focused on answering the WHAT question for this process.

The above Scope Statement was;

Prepared by: ______________________________
On: <<date>>

And accepted by: ______________________________
On: <<date>>

3.3 Communication Plan

IT Services

Communication Plan
Process: Financial Management

Status:	In draft Under Review Sent for Approval Approved Rejected	
Version:	<<your version>>	
IT Service Continuity Date:		

Communication Plan for Financial Management

The document is not to be considered an extensive statement as its topics have to be generic enough to suit any reader for any organization.

However, the reader will certainly be reminded of the key topics that have to be considered.

This document serves as a GUIDE FOR COMMUNICATIONS REQUIRED for the Financial Management process. This document provides a basis for completion within your own organization.

This document contains suggestions regarding information to share with others. The document is deliberately concise and broken into communication modules. This will allow the reader to pick and choose information for e-mails, flyers, etc. from one or more modules if and when appropriate.

This document was;	
Prepared by:	______________________
On:	<<date>>
And accepted by:	______________________
On:	<<date>>

Initial Communication

Sell the Benefits

First steps in communication require the need to answer the question that most people (quite rightly) ask when the IT department suggests a new system, a new way of working. WHY?

It is here that we need to promote and sell the benefits. However, be cautious of using generic words.

Generic Benefit statements	Specific Organizational example
Improved Customer Service	This is important because…
Reduction in the number of Incidents	In recent times our incidents within IT have…
Provides quicker resolution of Incidents	Apart from the obvious benefits, the IT department in recent times has…
Improved Organizational learning	A recent example of … saw the individual and others in the company start to…

The above Communication module (or elements of) was/were distributed;

To: ______________________________
On: <<date>>

By: ______________________________
On: <<date>>

Financial Management Goal

The Goal of Financial Management

The Goal of Financial Management can be promoted in the following manner.

Official Goal Statement: To provide cost effective stewardship of the IT Assets through a Financial Management process, providing budgeting, accounting and charging policies.

- High visibility and wide channels of communication are essential in this process. Gather specific Financial Requirements from nominated personnel

(Special Tip: Beware of using only Managers to gain information from, as the resistance factor will be high)

- Oversee the monitoring of process to ensure that the business needs of IT are not impacted, but taking into account that changes are required to ensure continued high levels of IT Service Delivery and Support.

- Provide relevant reports to nominated personnel.

(Special Tip: Beware of reporting only to Managers. If you speak to a lot of people regarding Service Support and Delivery then you need to establish ways to report to these people the outcomes and progress of the discussions).

Always bear in mind the “so what” factor when discussing areas like goals and objectives. If you cannot honestly and sensibly answer the question “so what” – then you are not selling the message in a way that is personal to the listener and gets their “buy-in”.

The above Financial Management Goals module was distributed;

To: ______________________________
On: <<date>>

By: ______________________________
On: <<date>>

Financial Management Activities

Intrusive & Hidden Activities

The list of actions in this module will have a direct impact on end users and IT Staff. They will be curious as to why working with them in this manner, rather than the historical method of just "doing it". There could be an element of suspicion and resistance, so consider different strategies to overcome this initial skepticism.

1. **Business Availability Requirements**
   - Interview and record the needs from the Business
   - Capture any critical areas
   - Create Financial Management criteria based on the requirements
2. **Budgeting**
   - Perform an assessment of the critical services from a cost perspective
   - Put in place communication guidelines for distributing the budget
   - Create the IT Budget. Allow accurate scope for predicting costs for the coming year
3. **Accounting**
   - Create a cost model
   - Setup measurements for the cost model based on Service and delivery areas
   - Communicate the cost model
4. **Charging**
   - Correct categorization of cost types, elements and units is essential to determine the right level of charging
   - Communicate methods for charging for the IT Services
   - Provide a simple, fair and realistic charging policy for IT Services
5. **Reporting**
   - Set appropriate Service Level Achievements
   - Agree through Service Level Management the SLA's for Financial Management
   - Communicate to IT Staff the reason and benefits
   - Communicate to business staff the reasons and benefits

Information regarding activities was distributed;

To: ______________________________
On: <<date>>

By: ______________________________
On: <<date>>

Financial Management Planning

Costs

Information relating to costs may be a topic that would be held back from general communication. Failure to convince people of the benefits will mean total rejection of associate costs. If required, costs fall under several categories:

- Personnel – Financial Management staff, database management team (Set-up and ongoing of the availability database)
- Accommodation – Physical location (Set-up and ongoing)
- Software – Tools (Set-up and ongoing)
- Hardware – Infrastructure (Set-up)
- Education – Training (Set-up and ongoing)
- Procedures – external consultants etc (Set-up)

The costs of implementing Financial Management will be outweighed by the benefits. For example, many organizations have a negative perception of the Financial Management process as it seems to constantly measure the wrong services. To alleviate this, customers and end-users need to be constantly informed of the activities and services being provided through Financial Management. This provides good customer service and adds a level of comfort to the users in the sense that they can “see” action taking place.

A well run Financial Management process will make major inroads into altering the perception of the IT Organization.

Details regarding the cost of Financial Management were distributed;

To: ______________________________
On: <<date>>

By: ______________________________
On: <<date>>

3.4 Financial Management Process Manager

IT Services

Roles and Responsibilities
Process: Financial Management

Status:	
Version:	0.1
Release Date:	

Detailed responsibilities of the Financial Management process owner

The Financial Manager…

	Description	Notes/Comments
1.	Will work, at an appropriate level, with representatives of the organization management and the Finance Department, to develop the policies of Budgeting, IT Accounting and Charging.	***Use the notes/Comments column in different ways. If you are looking to apply for a process role, then you can check yourself against the list (with ticks or look to update your resume).*** ***If you are looking to appoint a process manager or promote someone from within the organization you can make notes about their abilities in the particular area.***
2.	Will implement and maintain the IT Financial Management Process, covering Budgeting, IT Accounting and Charging.	
3.	Will assist in developing account plans and investment cases for the IT organization and its Customers.	
4.	Must be capable of managing the IT organization budget.	
5.	Will prepare budget forecasts and assist Customers in preparing IT elements of their budgets.	
6.	Will be requires to report regularly to IT managers and Customers on conformance to budgets.	
7.	Should select suitable tools and processes for gathering Cost data.	
8.	Will provide guidance for the development of suitable cost models.	
9.	Will seek agreement for suitable IT Accounting policies, e.g. Depreciation.	
10.	Will assist in developing cost-benefit cases for IT investments.	
11.	Will provide advice to senior management on the cost-effectiveness of IT solutions.	
12.	Will identify methods of charging within the organizations charging policy.	
13.	Will provide justifications and comparisons for charges.	
14.	Will ensure that regular bills are prepared for Customers	
15.	Will prepare a price list of Services, if required.	
16.	Will provide close support to Service Level Management, Capacity Management and Business relationship Management, especially during budget and	

	IT investment planning.	
17.	Will recommend scope for internal audits.	
18.	Will assist external auditors.	

Detailed skills of the Financial Management process owner

The Financial Manager…

<table>
<tr><th></th><th>Description</th><th>Notes/Comments</th></tr>
<tr><td>1.</td><td>Must possess sound numerical and financial skills</td><td rowspan="9">Use the notes/Comments column in different ways. If you are looking to apply for a process role, then you can check yourself against the list (with ticks or look to update your resume).

If you are looking to appoint a process manager or promote someone from within the organization you can make notes about their abilities in the particular area.</td></tr>
<tr><td>2.</td><td>Must have the ability to interact successfully with all levels of Customer and IT organization management.</td></tr>
<tr><td>3.</td><td>Must have a thorough approach to documentation and schedules.</td></tr>
<tr><td>4.</td><td>Must have excellent communication and negotiation skills.</td></tr>
<tr><td>5.</td><td>Must have good presentational skills.</td></tr>
<tr><td>6.</td><td>Must understand the Customers' businesses and how IT can affect the delivery of their products or services.</td></tr>
<tr><td>7.</td><td>Must accountancy and company financial reporting</td></tr>
<tr><td>8.</td><td>Must be capable of contract or supplier management.</td></tr>
<tr><td>9.</td><td>Must be conversant with statistical and analytical principles and processes.</td></tr>
</table>

Template Job Description

The Chief Financial Officer (CFO)

1. Oversees all financial management activities relating to the programs and operations of *<<ORGANIZATION>>* and reports directly to the Administrator regarding financial management matters.

2. Develops and maintains an integrated financial management system that complies with applicable accounting principles, standards, and other requirements of Federal, state and local financial management systems.

3. Directs, manages, and provides policy guidance and oversight of *<<ORGANIZATION>>* financial management personnel, activities, and operations.

4. Monitors the financial execution of the *<<ORGANIZATION>>* budget in relation to actual expenditures.

5. Works to ensure timely performance information for inclusion in financial reports and statements.

6. Reviews on a ***<<time scale (e.g. monthly, quarterly)>>*** basis the fees, royalties, rents, and other charges imposed by *<<ORGANIZATION>>* for the services and things of value that it provides and makes recommendations on revising those charges to reflect the costs incurred in providing those services and things of value.

3.5 Business Justification Document

IT Services

Business Justification
Process: Financial Management

Status:	
Version:	0.1
Release Date:	

Business Justification Document for Financial Management

The document is not to be considered an extensive statement as its topics have to be generic enough to suit any reader for any organization.

However, the reader will certainly be reminded of the key topics that have to be considered.

This document serves as a reference for HOW TO APPROACH THE TASK OF SEEKING FUNDS for the implementation of the Financial Management process.

This document provides a basis for completion within your own organization.

This document was;

Prepared by: ________________________________
On: <<date>>

And accepted by: ________________________________
On: <<date>>

Financial Management Business Justification

A strong enough business case will ensure progress and funds are made available for any IT initiative.

This may sound like a bold statement but it is true. As IT professionals we have (for too long) assumed that we miss out on funds why other functional areas (e.g. Human resources and other shared services) seem to get all that they want.

However, the problem is not with them, it's with US. We are typically poor salespeople when it comes to putting our case forward.

We try to impress with technical descriptions, rather than talking in a language that a business person understands.

For example:

We say	We should say
We have to increase IT security controls, with the implementation of a new firewall.	Two weeks ago our biggest competitor lost information that is now rumoured to be available on the internet.
The network bandwidth is our biggest bottleneck and we have to go to a switched local environment.	The e-mail you send to the other national managers will take 4 to 6 hours to be delivered. It used to be 2 to 3 minutes, but we are now using our computers for so many more tasks.
Changes to the environment are scheduled for a period of time when we expect there to be minimal business impact.	We are making the changes on Sunday afternoon. There will be less people working then.

Doesn't that sound familiar?

To help reinforce this point even further, consider the situation of buying a new fridge. What if the technically savvy sales person wants to explain "the intricacies of the tubing structure used to super cool the high pressure gases, which flow in an anti-clockwise direction in the Southern hemisphere"?

Wouldn't you say "too much information, who cares – does it make things cold?"

Well IT managers need to stop trying to tell business managers about the tubing structure and just tell them what they are interested in.

So let's now look at some benefits of Financial Management. Remember that the comments here are generic, as they have to apply to any organization.

Benefits	Notes/Comments/Relevance
Through a properly controlled and structured Financial Management process we will be able to more effectively help in the alignment of the delivery of IT service to the business requirements. This is achieved through the nature of the process by understanding such things as accounting models, charging policies and having more accurate information to help in the predication of budgets. A better understanding of these three components will allow more accurate spending on services that are needed by the business.	
A heightened visibility and increase communication related to Financial Management of Services for both business and IT support staff. The reader should be able to draw upon experience regarding the overall negative impact of the business when IT departments have been concerned with supplying high levels of services to the business that have not been budgeted, accounted for or being charged.	
Organizations and therefore IT environments are becoming increasing complex and continually facing new challenges. The ability to meet these challenges is dependent on the speed and flexibility of the organization. The ability to cope with more changes at the business level will be directly impacted by how well IT Departments can reduce the amount of time in loss of service due to bad Financial Management planning. (Reader, here you can describe a missed opportunity, due to bad Financial Management or a process dragged down by bureaucracy, i.e. not being able to deliver a critical service due to bad budgeting or unforeseen events)	

Noticeable increases in the potential productivity of end users and key personnel through reduced interruption times, higher levels of availability as the correct monies are being accounted for the right IT Services. The goal statement of Financial Management is to provide stewardship of the costs for IT Services and ensure alignment back to the business. By the very nature of this statement we can expect to start seeing a reduction in the costs of services due to better planning. Whether end users and staff take advantage of this is not an issue for IT professionals to monitor. Knowing that we have made an improvement is what we need to publish.	
An ITIL Financial Management process will guide you towards understanding the financial implications of all those necessary availability requirements needed in the IT infrastructure. This has real benefits as it may prevent an organization from spending money on areas of the IT Infrastructure where there really isn't a need for building high availability services for the business.	
The Financial Manager will ensure that the cost of service has been fully assessed prior to starting a service improvement programme in conjunction with Problem Management and Service Level Management.	
With a sound Financial Management process we can expect an overall improvement in the level of Availability as better planning can occur under a structured, repeatable process.	
Any ITIL process has the potential to increase the credibility of the IT group, as they offer a higher quality of service, combined with an overall professionalism that can be lacking in ad-hoc activities.	

Refer also to the *Financial Management Review Document* for an assessment of your current process

3.6 Accounting Policies

IT Services

Accounting Policies
Process: Financial Management

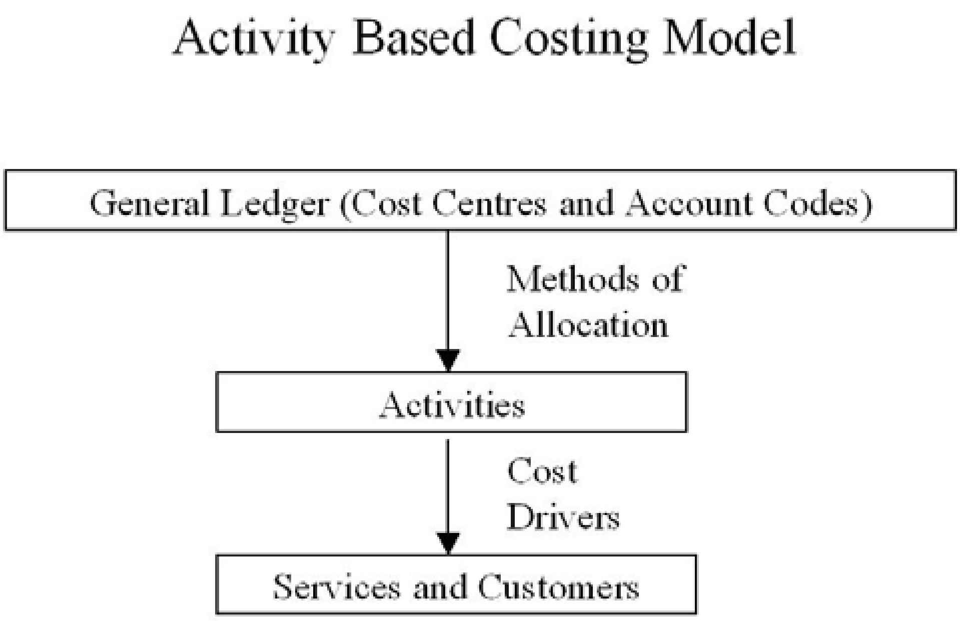
Status:	
Version:	0.1
Release Date:	

Introduction

This document will give a brief introduction to the accounting for IT services. It will give guidelines for the conversion of standard financial account and centre information into cost of IT service.

What is accounting?

In the context of IT services, accounting is the activity that calculates the cost of service and assigns this cost to the customers.
A cost model is the tool needed to calculate the cost of service. Activity based costing is an effective method of modeling costs and its generation gives information on what drives the costs and hence an indicator of where costs can be reduced.



General Ledger

This is the traditional method of financial recording. Each cost is assigned to a cost centre (a department, section, branch or unit) within the organization. The cost is then allocated to an account code (e.g. pay, training, software, hardware and so on) within the cost centre.

Methods of Allocation

The methods of allocations are the means by which the general ledger costs are assigned to activities e.g. people costs will be assigned on the basis of the amount of time spent on each activity. A method of allocation is needed for each account code in a particular cost centre.

Activities

These are all the activities performed. For IT departments these are generally pitched in technical terminology.

Cost Drivers

The cost driver is how an activity is assigned to a service and/or customer. This is usually phrased in business terminology and is the best means for having a business volume metric linked to IT cost of service.

Services and Customers

These are the customers and services that drive the IT costs. Irrespective of whether IT charges it needs to understand which services and customers are driving its costs.

Building a Cost Model

Different organizations have different complexities and the tool used to build a cost model can vary from a simple spreadsheet to using specialty software. The skill is to have enough detail available to make good business decisions while not going into too much detail and having a high maintenance cost.

3.7 Budgeting Guidelines

IT Services

Budgeting Guidelines
Process: Financial Management

Status:	
Version:	0.1
Release Date:	

Introduction

This document will give a brief introduction to the budgeting process for IT and give guidelines for an effective method to set budget plans and monitor expenditure as the financial year progresses.

What is budgeting?

Budgeting can be split into two main activities, Setting the Budget and Monitoring the Budget.

Setting the Budget

In most organizations the budget is set on an annual basis. This activity covers forecasting what financial resources IT will require in the forthcoming year.

IT spending can be classified in three key areas:

- Strategic Developments – These are IT developments which are aligned to (and often essential for) the organization's strategic plan.
- Tactical Developments – These are IT developments designed to make the organization more effective and/or efficient in its ongoing operations.
- On-going spend – This is the cost of running the existing computer services. Any volume increases in existing services should be provisioned for here.

Monitoring the Budget

All organizations need to monitor the actual amount of money spent against the forecast. Any significant changes to forecast need to be examined and action taken.

Changes to forecast can happen for a number of reasons, some of which are outlined here:

- Unexpected changes in Business Volume – If the business volume is greater than forecast more IT resource may be needed to satisfy this volume growth. Conversely if business volume is below forecast less IT resource may be needed.
- Budget Forecast assumptions are faulty – Any budget will have a number of built in assumptions. These will include costs of external services, resource estimates for new services, unbudgeted business requirements and potentially staff costs.

"A budget holder who spends their entire budget as a means to protect it in coming years is not truly in control of their finance or working to the benefit of the organisation. All spend should be done on the basis that it is one's own personal money and each expenditure can show a benefit."

Three Key Areas of Setting the Budget

Strategic developments

In the modern world every organization has its vision of where it wants to be. A Mission Statement or Vision usually portrays this, along with a tactical plan on how it wants to get there.

Strategic developments are those IT developments which are needed to fulfill the Mission or Vision. These are the areas where IT should focus its developments.

Tactical developments

IT is used as a tool to make an organization more effective or efficient in product delivery. Any development, which does not fit with the strategic aim of the organization, should show benefits through improved effectiveness or efficiency.

On-going spend

This is the finance resource needed to continue running the existing services and integrate new services into the operation.

Constructing the Budget

IT Development Budget

Every organization has a limit on its financial resources available to invest in IT development.

It is the responsibility of the business owners to agree where this resource should be invested. As such it is essential that the construction of the IT Development Budget involves senior members of each area of the organization.

Constructing the IT Development Budget then has the following steps:

1. All potential IT Developments need to be defined and estimates of cost, impact etc. needs to be established. These estimates should include running costs for at least three years into the future. The areas responsible for on-going spend need to agree running costs estimates.

2. All IT Developments in progress are reviewed and resource needs for future years reviewed.

3. The organization determines the amount of resource available to invest in the coming financial year.

4. Senior members of all business areas of the organization meet to review and prioritize the IT Development portfolio. This prioritization should ensure that IT Developments enabling the strategic direction of the organization have high priorities.

5. Draw a line through the prioritized list at about 75% of the total IT Development resource available. IT Developments above the line become Resource Approved Developments (RADs).

6. Then take the remaining about 25% of the total IT Development resource available and assign amounts of money to each of the business areas. This resource is available for IT Developments, which the business area has not yet defined and is known as the Business Opportunity Resources (BORs).

Note:

a) The IT organization should consider itself a business user of IT and have its own representation and development portfolio throughout this process.
b) Resource needs to be made available for evaluations of new IT Developments during the financial year. This may be taken out of the BOR.

On-going spend

The usual basis for the cost of running an on-going service is using existing information. When it comes to setting the budget this is a useful start point. The following five variables then need to be considered as the new budget is created.

Price

What are the assumptions on price for the forthcoming period? These need to be documented and then changes to the existing budget made on this basis.

Volume

What volume changes are anticipated? Information on this will usually come from two areas:

- Direct from the business, based on their budget assumptions and targets.
- From IT capacity planners who will have historical trend analysis and should then include the business changes as outlined above.

IT developments that are planned to move into an operational state during the budget period will also need inclusion at this point. Forecast running costs should be available from the original approval information.

New product

Some IT developments planned for implementation may require new products or services. The costs of these should have been included in the approval documentation and need to be allowed for in the budget.

Exchange rates

For organizations operating internationally exchange rate fluctuations may affect the budget construction.

Productivity

Here is the area that will reduce the cost of the IT operation. Any productivity gains will be reflected in the budget proposal.
It is not unusual for organizations to expect (and achieve) annual productivity gains of 10% in its IT expenditure.

Monitoring the Budget

Once the financial years starts the actual spend needs to be monitored against the forecast spend. Any variances to the forecast needed to be understood and appropriate action taken.

Variances can occur for a number of reasons.

Here are a few of the most common.

- **Business Volumes are higher than expected –** When this happens the increased business volume may need more IT resource. The result can be an increased IT expenditure. When this occurs there is usually a justifiable business case. This needs to be communicated to the relevant people in the organization as soon as it occurs so that appropriate financial target adjustments can be made. The increased business volumes may well result in increased revenue leading to the availability of finance resources.

- **Business Volumes are lower than expected –** When this happens the reduced business volume may result in reduced IT resource usage. This means that IT will under spend. This under spend should be returned to the business and not used to finance other (unbudgeted) areas. The result business volumes may result in reduced revenue and hence a need for the organization to make savings.

- **Planned Business developments change –** Through the year the business will have revised needs to those input to the budget creation process. When this occurs the business needs to be presented with a choice. This revolves around the business either making more finance resource available, or more often changing its RAD and BOR allocations to finance the revised development. It needs to ensure that it keeps accurate information on the RAD and BOR allocations so hat adjustments can be easily audited at a later date.

3.8 Charging Policies

IT Services

Charging Policies
Process: Financial Management

Status:	
Version:	0.1
Release Date:	

Introduction

This document will give a brief introduction to the introduction of charging for IT services. It will give guidelines for the introduction of an effective charging mechanism.

What is charging?

Charging is the means by which any organization collects revenue for the services or products it supplies. It is fairly obvious that commercial IT organizations, which sell services to external customers, need to have a charging mechanism.

With internal IT organizations charging becomes a more sensitive issue. The charging mechanism will usually lead to the transfer of financial resources from the business areas to the IT department without any total effect on the bottom line of the organization. Internal charging needs to be a decision made by the heads of the organization in conjunction with the CIO. Charging introduced by the IT department without the commitment of the rest of the organization invariably fails.

Benefits of charging

The introduction of charging will add an additional overhead to the organization. This overhead will come from the preparation and distribution of invoices or whatever method is used to notify the business of its charges and the subsequent debates that invariably happen around the details of the charges.
The benefits of internal charging must outweigh these costs otherwise the charging mechanism is adding costs without benefits.

Benefits of charging are usually seen as: -

- The business becomes aware of the cost of IT.
- The business makes better decisions based a better understanding of cost.
- IT gains an improved understanding of the business.
- IT only spends money where there is a business need.

The introduction of charging will also bring some challenges: -

- The business will challenge the IT charges.
- The business may look to other sources to provision its IT needs.
- IT may not have adequate information on business IT usage.
- The culture inside the IT department is not geared to charging methods.

Introduction of charging

The introduction of charging will be a major project for both the IT department and the business.
The following steps will be needed: -

- Decision on charging philosophy.
- IT will have to know cost of service.
- Customers of service will have to be identified.
- Agree pricing mechanisms for service.
- Agree charging mechanisms.
- Make budget provisions.
- Implement.

Decision on charging philosophy

This revolves around how the IT department is to be seen in the organization and what elements of IT are to be charged for.

- Is IT a profit centre? – Is the IT department expected to collect more revenue than it spends? This is definitely the case with a commercial IT company or an IT department which is being prepared for the commercial market place.
- Is IT a cost centre? – Is the IT department expected to recover just the money it spends? Is it meant to recover this money with a truly representative link to actual cost?
- Will charges just be made for some IT elements? (E.g. charge for new developments or PCs, but not for network infrastructure).

IT will have to know cost of service

This seems fairly obvious but can be something easily overlooked.
All elements of the service need to be understood when calculating the cost of service. This is usually an area where much acrimony can exist between the business and IT because IT does not explain the full composition of the service and the following statements are often heard.
“Why do I have to pay IT $3,000 for a PC when I can buy one for $1,500 at

my local PC shop?”

IT must not fall into the “Well go on then” trap but be prepared to explain and defend the added value etc.

Customers of service will have to be identified

The customers of the service need to be engaged in discussions on how to charge for it. In cases where ownership is unclear or the services are shared this can be a challenge. This is an indicator point of business commitment.

“One of the biggest users of IT services is the IT department. No charging mechanism can be effective if IT is not included as a customer”

Agree pricing mechanisms for service

Once the customers for the service are identified dialogue can then take place on how to price and hence charge for the service. Invariably the business customers will want to be charged in terms of their business volume drivers so be prepared for charging requests based on such volume as number of customer accounts, number of business transactions and NOT technical volumes such as gigabytes of data used.

Agree charging mechanisms for service

After the pricing, the charging mechanism needs to be agreed.
This revolves around how IT will provide charging information and what kind of data is included. It will include agreements on how the charges are put in the organizations accounts and ledgers. Agreement with the corporate finance department will be needed here.

Making budget provisions

The business will need to make provisions in its own budget for IT charges.
To aide this it will look to the IT department to provide information. It needs to be able to provide historical information on work with the business on likely future costs based on business forecasts.
One useful technique here is to provide the business with information on what its charges would be if charging was already in place...
IT needs to work with the business to help it reduce its cost of IT and be capable of adapting to any changes in IT usage which the business may make as a result of charging.
Remember charging for IT is usually introduced to reduce the cost of IT by reducing unnecessary business usage.

Implementation

Implementation will usually be timed to coincide with a financial year.
Be prepared for many debates over the first sets of charges issued to the business. Often the business needs help to understand what is driving its costs. If IT can see opportunities for reducing the business spend on IT these should be highlighted and actions taken.

CHARGING WILL ONLY WORK IF BUSINESS AND INFORMATION TECHNOLOGY WORK TOGETHER TO ENSURE ITS SUCCESS. WHEN THE RELATIONSHIP IS NOT BUILT OR BREAKS DOWN CHARGING WILL JUST ADD ANOTHER OVERHEAD TO YOUR ORGANISATION.

3.9 Reports, KPIs and other Metrics

IT Services

Reports, KPIs and other Metrics
Process: Financial Management

Status:	In draft Under Review Sent for Approval Approved Rejected	
Version:	<<your version>>	
Release Date:		

Reports and KPI Targets for Financial Management

The document is not to be considered an extensive statement as its topics have to be generic enough to suit any reader for any organization.

However, the reader will certainly be reminded of the key topics that have to be considered.

This document serves as a GUIDE ON SUITABLE KEY PERFORMANCE INDICATORS (KPIs) and REPORTS FOR MANAGEMENT for the Financial Management process. This document provides a basis for completion within your own organization.

This document contains suggestions regarding the measures that would be meaningful for this process. The metrics demonstrated are intended to show the reader the range of metrics that can be used. The message must also be clear that technology metrics must be heavily supplemented with non-technical and business focused metrics/KPI's/measures.

This document was;

Prepared by: ______________________________
On: <<date>>

And accepted by: ______________________________
On: <<date>>

Key Performance Indicators (KPI's)

Continuous improvement requires that each process needs to have a plan about "how" and "when" to measure its own performance. While there can be no set guidelines presented for the timing/when of these reviews; the "how" question can be answered with metrics and measurements.

With regard to timing of reviews then factors such as resource availability, cost and "nuisance factor" need to be accounted for. Many initiatives begin with good intentions to do regular reviews, but these fall away very rapidly. This is why the process owner must have the conviction to follow through on assessments and meetings and reviews, etc. If the process manager feels that reviews are too seldom or too often then the schedule should be changed to reflect that.

Establishing SMART targets is a key part of good process management. SMART is an acronym for:

Simple
Measurable
Achievable
Realistic
Time Driven

Metrics help to ensure that the process in question is running effectively.

With regard to FINANCIAL MANAGEMENT the following metrics and associated targets should be considered:

Key Performance Indicator	Target Value (some examples)	Time Frame/Notes/Who
Using data from the Configuration Management Database (CMDB) indicate any particular Configuration items that are going through continual change. For Financial Management the KPI's are broken into three specific groups as indicated.		
Effective stewardship of the IT finances: • Increased accuracy of cost recovery profiles and expenditure. • The IT organization is operated within the expected income/level of profits. • The IT financial objective of either break-even or profit (whichever is the objective of the enterprise) is met. • Increased accuracy of monthly, quarterly and annual forecasted profiles. • Reduced frequency and severity of Changes required to the Accounting and Budgeting systems. • All IT costs are accounted for. • Reduced frequency and severity of Changes made to the Charging algorithms (where appropriate). • Timely production of budget forecasts and reports. • Timely production of the Financial Plan, IT accounts and reports.		
Overall effectiveness of the process: • Plans and budgets produced on time. • Specified reports produced at the required time. • The inventory schedules are kept up-to-date. • Timeliness of annual audits. • Meeting of monthly, quarterly and annual financial objectives. • Reduction in the relative costs. • Reduction in the number of budget variances and adjustments.		

• Reduction in the variances from the Financial Plan. • Relative reduction in the overall Total Cost of Ownership (TCO).		
Customers satisfied with cost of provision: • Charges, where applied, are seen to be fair. • Reduction in the number queries and complaints from Customers relating to the calculation of IT costs and charges.		
Others		

Special Tip: Beware of using percentages in too many cases. It may even be better to use absolute values when the potential number of maximum failures is less than 100.

Reports for Management

Management reports help identify future trends and allow review of the "health" of the process. Setting a security level on certain reports may be appropriate as may be categorizing the report as Strategic, Operational or Tactical.
The acid test for a relevant report is to have a sound answer to the question; "What decisions is this report helping management to make?"

Management reports for Financial Management should include:

Report	Time Frame/Notes/Who
How much they have spent on IT during the financial year.	
Whether the charges made match the predicted profile.	
The current Charging policies and IT Accounting methods.	
How the IT organization is investing any profits (e.g. in Infrastructure or service improvements).	
Any variances, what caused them and what actions are being taken.	
Cost total, broken down by business.	
Cost analyses by service line, equipment domain or other relevant view.	
Revenues total, broken down by business.	
Costs and cost recovery against profile.	
Outlook on costs and cost recovery.	
Problems and costs associated with IT Accounting and Charging systems.	

Recommendations for changes.	
Future investments required.	

3.10 Sample Business Case Structure

A. Introduction
Presents the business objectives addressed by the service.

B. Methods and assumptions
Defines the boundaries of the business case, e.g. time period, whose costs, whose benefits.

C. Business Impacts
The financial and non-financial business case results.

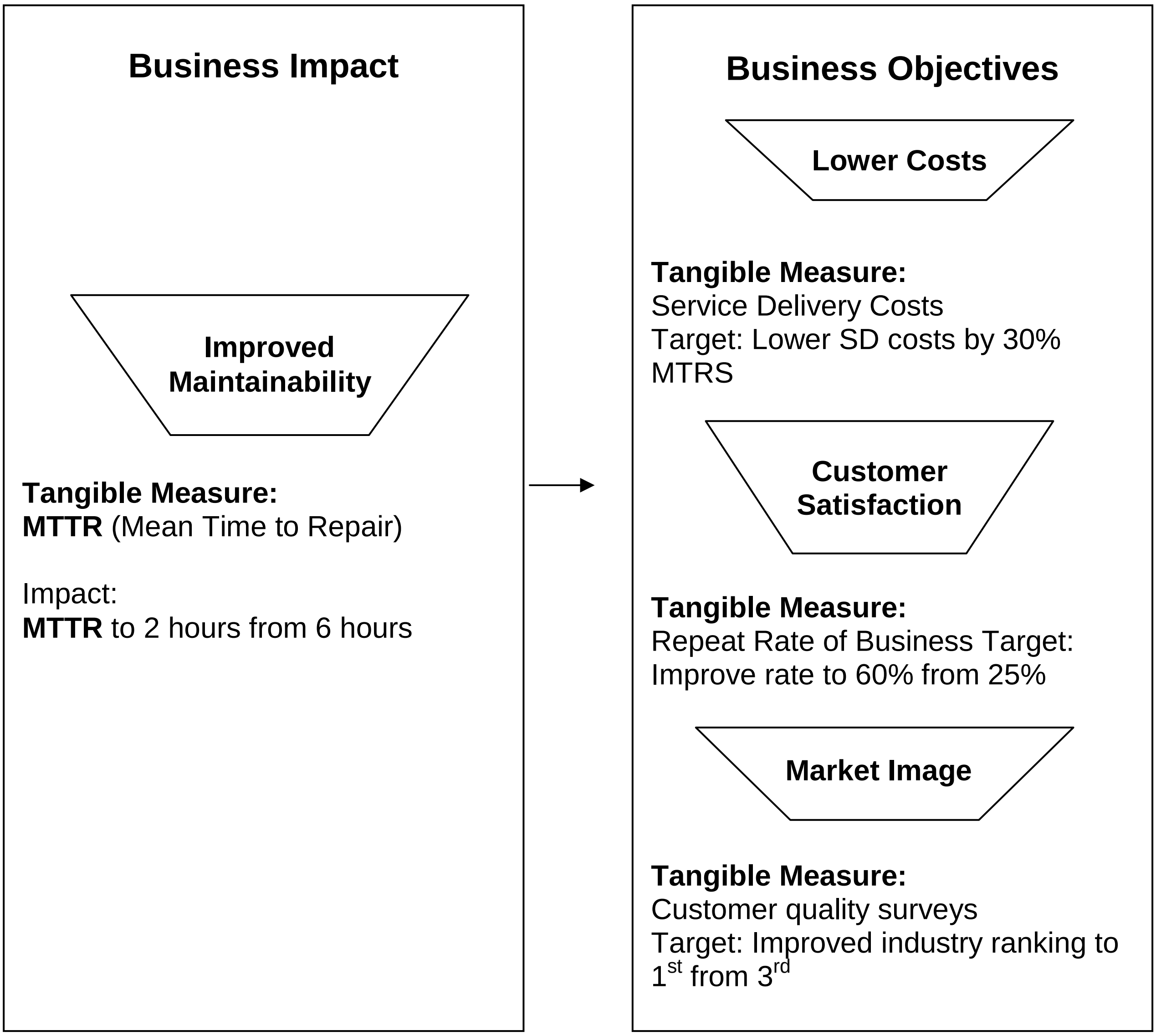
D. Risks and contingencies
The probability that alternatives results will emerge.

E. Recommendations
Specific actions recommended.

3.11 Common Business Objectives

OPERATIONAL	FINANCIAL	STRATEGIC	INDUSTRY
Shorten development time	Improve return on assets	Establish or enhance strategic positioning	Increase market share.
Increase productivity	Avoid costs	Introduce competitive results	Improve market position
Increase capacity	Increase discretionary spending as a percentage of budget	Introduce competitive products	Increase repeat business
Increase reliability	Decrease non-discretionary spending	Improve professionalism of organization	Take market leadership
Minimize risks	Increase revenues	Provide better quality	Recognized as producer of reliable or quality products and/or services
Improve resource utilization	Increase margins	Provide customized offerings	Recognized as low price leader
Improve efficiencies	Keep spending to within budget	Introduce new products or services	Recognized as complaint to industry standards.

3.12 Example – Single Business Impact can affect Multiple Business Objectives



3.13 Example – Multiple Business Impact can affect Single Business Objectives

Business Impact

Improved Reliability

Tangible Measure:
MTBF (Mean Time Between Failure)

Impact:
MTBF to 200 hours from 600 hours

Improved Maintainability

Tangible Measure:
MTTR (Mean Time to Restore)

Impact:
MTTR to 2 hours from 6 hours

Improved Services

Tangible Measure:
Product orders can now be placed on-line

Impact:
Product orders can be placed 24x7

Business Objectives

Customer Satisfaction

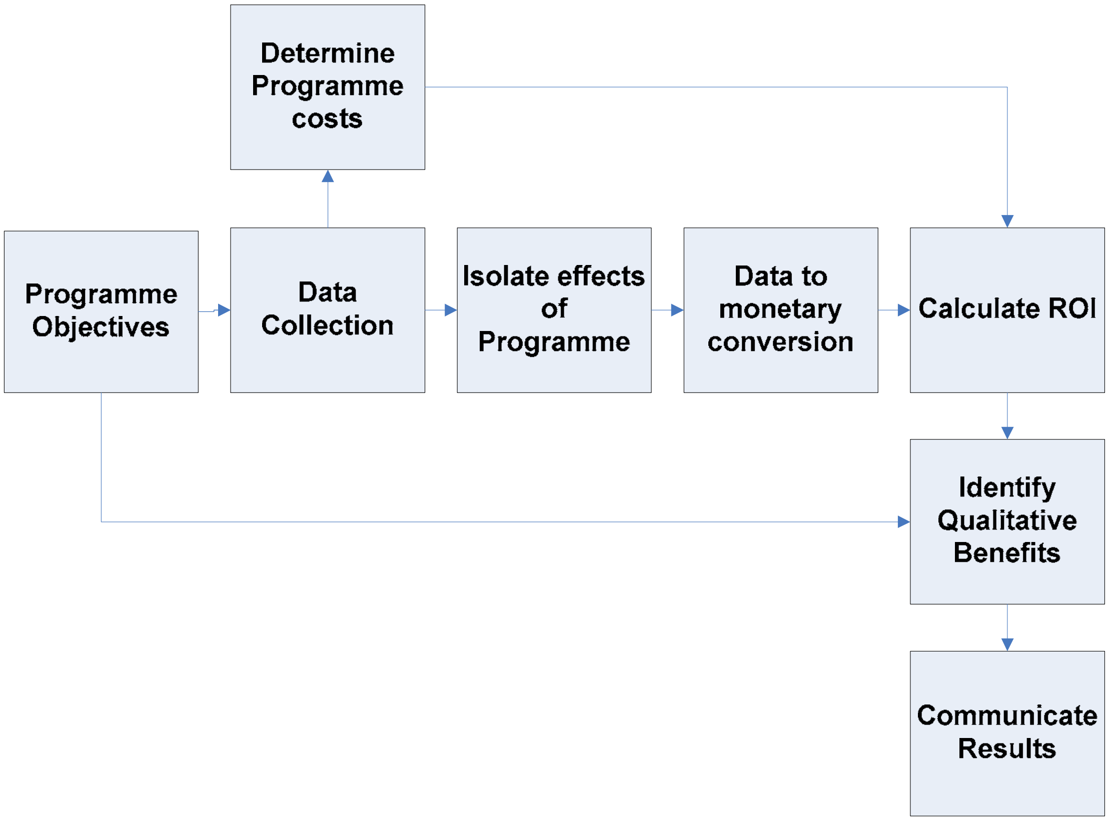
Tangible Measure:
Repeat Rate of Business

Target:
Improve rate to 60% from 25%

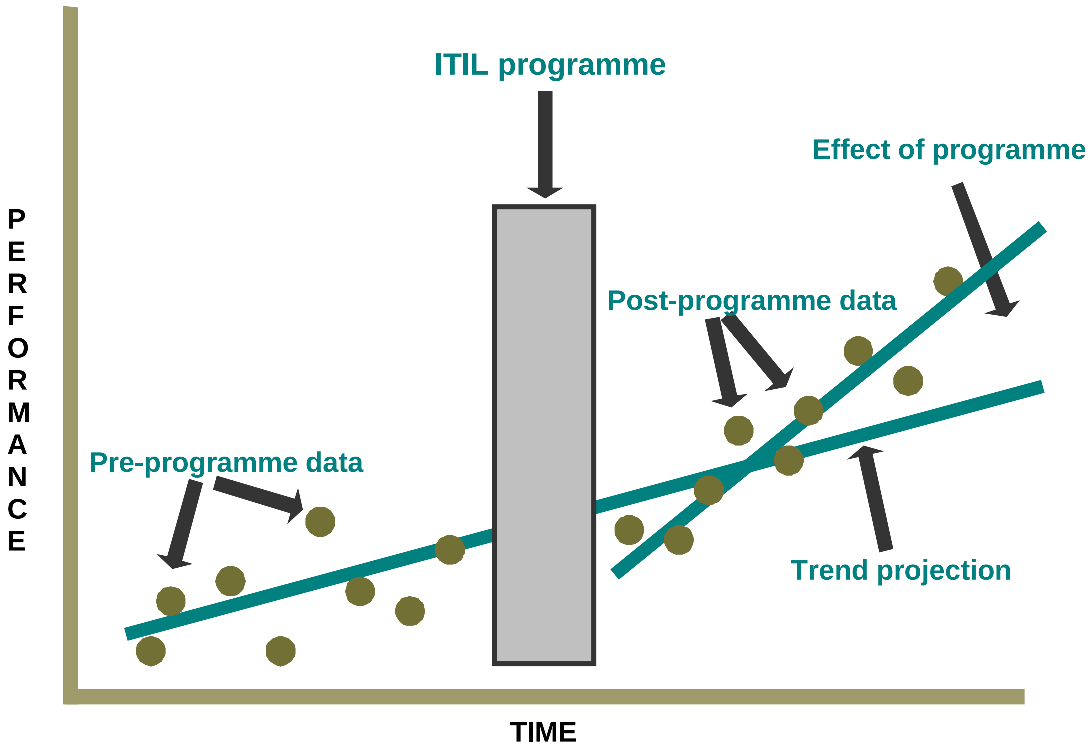
3.14 Example NPV Decisions

If the NPV Decision is:	Then the program is:
Positive	Acceptable. It promises a return greater than the required rate of return
Zero	Acceptable. It promises a return equal to the required rate of return.
Negative	Unacceptable. It promises a return less than the required rate of return.

3.15 Example: Model Calculation of a Service Management ROI



3.16 Example Trend Line Analysis



4 IMPLEMENTATION PLAN

IT Services

Implementation Plan/Project Plan
Skeleton Outline
Process: Financial Management

Status:	
Version:	0.1
Release Date:	

Planning and Implementation for Financial Management

This document as described provides guidance for the planning and implementation of the Financial Management ITIL process.

The document is not to be considered an extensive plan as its topics have to be generic enough to suit any reader for any organization.

However, the reader will certainly be reminded of the key topics that have to be considered for planning and implementation of this process.

1. Initial planning

When beginning the process planning the following items must be completed:

CHECK ☺😐☹ <u>or</u> ✓× <u>or</u> date	DESCRIPTION
	Get agreement on the objective (use the ITIL definition), purpose, scope, and implementation approach (e.g. Internal, outsourced, hybrid) for the process.
	Assign a person to the key role of process manager/owner. This person is responsible for the process and all associated systems. This will person will generally be someone aligned to the Service Delivery role, or a new position.
	Conduct a review of activities that would currently be considered as an activity associated with this process. Make notes and discuss the "re-usability" of that activity. Three key activities of Financial Management are: • Gathering Financial Requirements • Designing the Budget • Designing and implementing the costing model under the accounting activities • Designing and agreeing upon a charging model and policies
	Create and gain agreement on a high-level process plan and a design for any associated process systems. NOTE: the plan need not be detailed. Too many initiatives get caught up in too much detail in the planning phase. **KEEP THE MOMENTUM GOING.**
	Review the finances required for the process as a whole and any associated systems (expenditure including people, software, hardware,

	accommodation). Don't forget that the initial expenditure may be higher than the ongoing costs. Don't forget annual allowances for systems maintenance or customizations to systems by development staff.
	Agree the policy regarding this process

2. Create Strategic statements

Refer to *Policies, Objectives and Scope* for more template information regarding Policy, Objective and Scope statements.

Policy Statement

The policy establishes the "SENSE OF URGENCY" for the process.

It helps us to think clearly about and agree on the reasons WHY effort is put into this process.

An inability to answer this seemingly simple, but actually complex question is a major stepping stone towards successful implementation

The most common mistake made is that reasons regarding IT are given as the WHY we should do this. Reasons like to make our IT department more efficient are far too generic and don't focus on the real issue behind why this process is needed.

The statement must leave the reader in no doubt that the benefits of this process will be far reaching and contribute to the business in a clearly recognizable way.

Objective Statement

When you are describing the end or ultimate goal for a unit of activity that is about to be undertaken you are outlining the OBJECTIVE for that unit of activity.

Of course the activity may be some actions for just yourself or a team of people. In either case, writing down the answer to WHERE will this activity to me/us/the organization is a powerful exercise.
There are many studies that indicate the simple act of putting a statement about the end result expected onto a piece of paper, then continually referring to it, makes achieving that end result realistic.

As a tip regarding the development of an objective statement; don't get caught up in spending hours on this. Do it quickly and go with your instincts or first thoughts – BUT THEN, wait a few days and review what you did for another short period of time and THEN commit to the outcome of the second review as your statement.

Scope Statement

In defining the scope of this process we are answering what activities and what "information interfaces" does this process have.

Don't get caught up in trying to be too detailed about the information flow into and out of this process. What is important is that others realize that information does in fact flow.

For example, with regard to the FINANCIAL MANAGEMENT process we can create a simple table such as:

Financial Management Information flows

Process		Process	Information
Financial Management	to	Problem Management	Cost estimates
Problem Management	to	Financial Management	Actual Costs
Financial Management	to	Change Management	Cost estimates
Change Management	to	Financial Management	Actual Costs
Financial Management	to	Service Level Management	Pricing Guidance
Service Level Management	to	Financial Management	Customer cost restraints

3. Steps for Implementation

There can be a variety of ways to implement this process. For a lot of organizations a staged implementation may be suited. For others a “big bang” implementation – due to absolute equality may be appropriate.

In reality however, we usually look at implementation according to pre-defined priorities. Consider the following **options** and then apply a suitable model to your own organization or case study.

STEPS	NOTES/ /RELEVANCE/DATES/WHO
Define the Objective and Scope for Financial Management	
Establish and agree on a clear definition for the words: • Budgeting • Accounting • Charging • Incremental Budgets • Zero-based Budgets This is one of the most interesting aspects. It can be very difficult to get everyone to agree to a definition, and it can be very difficult to establish the correct understanding of the definition. However, get this right, and the rest of the process is made easier.	
Seek initial approval **See *Business Justification Document* for further information.**	
Establish and Define Roles and Responsibilities for the process. Appoint a Financial Manager. **See *Financial Management Process Manager* for further information.**	
Establish and Define the Scope for Financial Management and the relationships with IT Services	
Establish Financial Management Process **See *Objectives and Goals* for further information.**	
Establish and Define Relationship with all other	

processes. This is another key aspect of the Financial Management process. Financial Management is where we are helping set the expectations of service and influence their perceptions. Financial Management works closely with Service Level Management to achieve this.	
Establish monitoring levels. Financial Management as seen by the business is related to the service and not the components that make up the service. **See *Reports, KPIs and other Metrics* for further information.**	
Define reporting standards	
Publicize and market	

The priority selection has to be made with other factors in mind, such as competitive analysis, any legal requirements, and desires of “politically powerful influencers”.

4. Costs

The cost of process implementation is something that must be considered before, during and after the implementation initiative. The following points and table helps to frame these considerations:

(A variety of symbols have been provided to help you indicate required expenditure, rising or falling expenditure, level of satisfaction regarding costs in a particular area, etc.)

	Initial	During	Ongoing
Personnel Costs of people for initial design of process, implementation and ongoing support	✓	☟	☝
Accommodation Costs of housing new staff and any associated new equipment and space for documents or process related concepts.	😐	☺	☹
Software New tools required to support the process and/or the costs of migration from an existing tool or system to the new one. Maintenance costs			

Hardware New hardware required to support the process activities. IT hardware and even new desks for staff.			
Education Re-education of existing staff to learn new techniques and/or learn to operate new systems.			
Procedures Development costs associated with filling in the detail of a process activity. The step-by-step recipe guides for all involved and even indirectly involved personnel.			

In most cases, costs for Process implementation have to be budgeted for (or allocated) well in advance of expenditure. Part of this step involves deciding on a charging mechanism (if any) for the new services to be offered.

5. Build the team

Each process requires a process owner and in most situations a team of people to assist.

The Financial Management process is one of the processes in the Service Delivery set that shows very visible benefits from the outset and is very influential in setting the perception of IT Services to its customers and end users.

Of course a lot will be dependant on the timing of the implementation and whether it is to be staged or implemented as one exercise.

Refer to *Financial Management Process Manager* for roles, responsibilities and tasks of involved personnel.

6. Analyze current situation and FLAG

Naturally there are many organizations that have many existing procedures/processes and people in place that feel that the activities of Financial Management is already being done. It is critical to identify these systems and consider their future role as part of the new process definition.

Examples of areas to review are:

Area	Notes
Power teams	
Current formal procedures	
Current informal procedures	
Current role descriptions	
Existing organizational structure	
Spreadsheets, databases and other repositories	
Other…	

7. Implementation Planning

After base decisions regarding the scope of the process and the overall planning activities are complete we need to address the actual implementation of the process.

It is unlikely that there will not be some current activity or work being performed that would fit under the banner of this process. However, we can provide a comprehensive checklist of points that must be reviewed and done.

Implementation activities for Financial Management

Activity	Notes/Comments/Time Frame/Who
Review current and existing Financial Management practices in greater detail. Make sure you also review current process connections from these practices to other areas of IT Service Delivery and Support.	
Review the ability of existing functions and staff. Can we “reuse” some of the skills to minimize training, education and time required for implementation?	
Establish the accuracy and relevance of current processes, procedures and meetings. As part of this step if any information is credible document the transition from the current format to any new format that is selected.	
Decide how best to select any vendor that will provide assistance in this process area (including tools, external consultancy or assistance	

to help with initial high workload during process implementation).	
Establish a selection guideline for the evaluation and selection of tools required to support this process area (i.e. Financial Management tools).	
Purchase and install tools required to support this process (i.e. Financial Management tool). Ensure adequate skills transfer and on-going support is catered for if external systems are selected.	
Create any required business processes interfaces for this process that can be provided by the automated tools (e.g. reporting – frequency, content).	
Document and get agreement on roles, responsibilities and training plans.	
Communicate with and provide necessary education and training for staff that covers the actual importance of the process and the intricacies of being part of the process itself.	

An important point to remember is that if this process is to be implemented at the same time as other processes that it is crucial that both implementation plans and importantly timing of work is complementary.

8. Cutover to new processes

The question of when a new process actually starts is one that is not easy to answer. Most process activity evolves without rigid starting dates and this is what we mean when we answer a question with “that’s just the way it’s done around here”.

Ultimately we do want the new process to become the way things are done around here, so it may even be best not to set specific launch dates, as this will set the expectation that from the given date all issues relating to the process will disappear (not a realistic expectation).

5 FURTHER READING

For more information on other products available from The Art of Service, you can visit our website: http://www.theartofservice.com

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